

~~SECRET~~CIA PROGRESS REPORT**CONFIDENTIAL**COPY NO. 2

COPY: Annex 1 (Administration)  
Part 2, Section 9

DRAFT: CBH Rewrite for DD/A Comment/Approval  
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Successful operation of an intelligence agency, particularly during a period of expansion, requires that the directing staff continuously submit itself to critical self-examination. This is especially true in those administrative activities where examination can produce added effectiveness and economy of operation. For this reason, the Deputy Director (Administration) is charged with establishing and maintaining a continuous program of management analysis and improvement.

During the period under review, CIA has studied and re-aligned its organizational structure and its procedures. A Management Analysis office, serving as staff advisor to the Deputy for administration, reviewed and overhauled administrative procedures inside I&S. It consolidated administrative staffs in Training and reduced its overhead. It has pioneered in the use of business machines and business machine techniques. By helping to inculcate CIA with new management-sense, this office has not only brought greater efficiency to the agency but it has paid for itself many times over in actual cash savings. In FY 1951,

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those administrative savings alone amounted to  
\$330,000.

The management analysis function began with the establishment of CIA; it has since grown up with the agency. However during the first three years of its existence, management analysis was not permitted to intrude upon the covert offices of CIA. This ban held and was not lifted until shortly before October 1950.

But while these covert offices may eventually prove to be the most remunerative field for analysis, to date they have been the least rewarding. Circumstances, however, are largely responsible for this condition. Not only has the pace of expansion outstripped the ability of management to audit covert operations but the increased work load of management itself has caused it to limit its activities. Despite the sensitivity of covert operations, there is no reason why they should be exempted from management analysis. Certainly security need not be a bar to economy.

There is need for extensive review of these covert activities; the promise of benefits is bright. The Director must ascertain the propriety of all such unvouchered expenditures by internal audit of those

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covert operations.

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Although there is no evidence of illegal or unethical expenditure by employees even where the agency lacks a restraining influence in the form of an audit, cost-carelessness is likely to increase in the absence of inspection. For CIA has discovered that a direct relationship exists between sound operational judgment and financial prudence. Employees who tend toward careless cost habits are similarly slovenly in operations.

(Since October 1950, CIA has conducted an independent - *also before Oct 1950*  
audit of unvouchered agency funds and property.) In

April 1951, this audit division was separated from I&S where it functioned as a subordinate unit and elevated to a staff position in which it reports directly to the Deputy Director (Administration).

But during the last nine months the work of this unit has been greatly increased in an effort to keep pace with the agency's growth in covert activities. Not only have these projects multiplied in number but they have become increasingly complex. As a result there is need for an expanded audit and inspection program especially in proprietary undertakings and in major field installations.

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At the same time the agency's need for more critical self-examination has led to a survey program under the aegis of qualified senior consultants. Both the Medical Office and the Office of General Counsel have been examined by experienced men of proven ability and national repute. And the Comptroller's Office is under constant scrutiny in an effort to detect weaknesses in audit procedures.

Because NSC has no alternative but to rely upon the Director of CIA in assaying the effectiveness of that agency, the Director bears a singular responsibility for the accuracy of his reports. To establish beyond all doubt the accuracy of those reports submitted him by subordinates on the effectiveness of agency operations, the Director is curiously dependent upon the independent services of senior consultants who will assay the agency objectively. This practice must be extended to those offices not yet surveyed.

*Believe we might reexamine the question of "dependency". Certainly this is one way of achieving an object, but not necessarily the only way.*

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